

LEE COUNTY
NORTH CAROLINA
Committed Today for a Better Tomorrow

May 7, 2007

Lee County Board of Commissioners

Robert H. Brown, Chairman
Jerry M. Lemmond, Vice-Chairman
James C. Kelly
Nathan E. Paschal
Robert T. Reives
Linda A. Shook

Re: Budget Message
Fiscal Year 2007-08 Recommended Budget

Dear Chairman Brown and Commission Members:

With respect for your commitment to public service and gratitude for your guidance, it is a pleasure to present Lee County's FY 2007-08 proposed budget. The FY 2007-08 proposed budget has been developed to advance Lee County's Mission: Through vision and leadership, setting the standard for professional local government.

Two years ago, the Board struggled with a decision to raise property taxes by nearly 18 percent to 79-cents per \$100 of valuation. This year the Board faces an equally difficult decision in setting a tax rate in a revaluation year. Many will ask that the Board consider a revenue neutral rate. The budget proposed herein is not based on a revenue neutral rate; it is, however, based on a rate that supports the Board's mission, motto and financial policies. Lee County is on the cusp of growth with the pending Base Realignment Closure (BRAC) and the continued growth along the US 1 corridor. The County must continue to illustrate its intent to control its future by making proactive decisions rather than reactive decisions that ultimately cost the taxpayers of Lee County more. This budget proposes increased commitments today in education, public safety and technology that will bring a better tomorrow.

The conclusion of the 2006-07 fiscal year will see the continued, but reduced, reliance on fund balance reserves to achieve balanced budget status. The County began the year with an appropriation of \$2,320,284 from reserves; this amount was largely used for one-time purchases and not for ongoing expenses. It is estimated that the County will use only \$175,000 of this amount to end the fiscal year. If so, total available General Fund balance will end the year at \$10,231,331, or 16.62 percent of FY 2006-07 projected expenditures. The Board's policy states that it will strive for a fund balance of 18 percent and will not allow reserves to drop below 14 percent.

OFFICE OF THE COUNTY MANAGER

P. O. Box 1968 • 106 Hillcrest Drive • Sanford NC 27331-1968
Tel 919-718-4605 • Fax 919-777-9315 • manager@leecountync.com

The recommended 2007-08 fiscal year budget contemplates a \$2,051,000 fund balance appropriation for one-time expenses and consideration of the full-funding of salaries, which routinely allow for a \$1,200,000 "float". Eligible fund balance-use projects are routinely viewed as purchases that have a useful life of more than one year and are not "consumable". Traditionally, the acquisition of motor vehicles has not been viewed as an activity eligible for fund balance appropriation. However, since the last revaluation, fund balance appropriation has been used for vehicle acquisition and other "consumable" assets. The tax rate proposed in this budget contemplates the ending of such practice. This budget uses \$851,168 to cover nonrecurring capital items. Capital items totaling \$758,515 are properly funded from operating revenues in this budget. Even with this change, fund balance appropriations in this proposed budget and the increased growth in expenditures are projected to reduce reserves dangerously close to the Board's minimum threshold. Close scrutiny of fund balance use must continue to avoid a precariously low reserve level.

For four years since the last revaluation cycle, the County has struggled with funding all of its obligations to itself and constituent governments within the parameters of the tax rate hoping that the next real property revaluation would realize a considerable tax base increase. The revaluation of real property in this fiscal year has produced a 12.4 percent increase in the County's tax base. Lee County financial policies adopted May 5, 2005, stated "In an effort to stabilize the County's tax rate, the Board of Commissioners will adopt a tax rate that considers the succeeding four years' anticipated expenditures and will strive not to change the rate until the next revaluation." This policy was considered in the preparation of this proposed budget; however, due to the many bills introduced in the House of Representatives and the Senate that could have significant impact on our operating budget and our capital improvements program, the proposed rate does not encompass the four year revaluation cycle. The rate does contemplate the continued funding of a capital reserve per the County's financial policies and continues the current year's property tax contribution to debt service as outlined in the County's Capital Improvements Program.

The total FY 2007-08 proposed budget reflects an increase of 7.86 percent to \$62,644,866. The net expenditure increase is \$2,186,818 or 5.0 percent. Property tax revenue is projected to increase 9.58 percent over the 2006-07 budget year. Natural base growth accounts for 3.74 percent of the increase; 5.84 percent reflects a rate adjustment from a revenue neutral rate of 71 cents to 75 cents.

One expenditure category that is proposed to increase above that of any other government function is Education. Represented in this classification are the Lee County School System (LCSS) and Central Carolina Community College (CCCC). This category's 15.6 percent increase can be largely attributed to capital outlay funding for LCSS. The recommended \$2,242,887 contribution represents a substantial increase in funding; however, \$1,441,499 of the contribution will come from NC Lottery proceeds and Public School Building Capital (PSBC) Fund monies. Projects to be funded from these sources must be approved by the Department of Public Instruction. Approval should be demonstrated to the County by LCSS before any project begins. The increase net of lottery and PSBC Fund proceeds is 4 percent. Current expense funding for LCSS has increased 7.1 percent to \$13,569,437, \$1,379,823 lower than the \$14,949,260

requested by the Board of Education. Current expense funding for CCCC is increased \$71,092 or 3.9 percent. Based on Lee County's Capital Improvement Program adopted April 18, 2006, CCCC requested \$410,000 for projects proposed for funding in FY 2007-08. Also requested is \$51,000 for needed maintenance equipment for the College. The proposed budget funds the maintenance equipment only. The Board of Commissioners attempted to devise a formula for funding education expenses but the Board of Education never agreed to its use. A concrete funding relationship would assist the County and the constituent educational institutions in determining future year funding levels to minimize the potential for animosity.

The County's compulsory contribution to the State of North Carolina's Medicaid program continues to consume a significant expenditure percentage when compared with other non-educational obligations. The FY 2007-08 budget of \$3,079,515 represents 4.9 percent of the total General Fund Budget and is the equivalent of 7.1-cents of the tax rate. Counties have made progress with the North Carolina General Assembly in finding alternative means for relieving local governments of this encumbrance, but no final action has been taken. In FY 2006-07, the North Carolina Legislature's adopted state budget included a one-time cap of up to \$27.4 million for Medicaid relief for counties for the FY 2006-07. The cap is intended to freeze county contributions at FY 2005-06 levels. To date, counties have not received benefit from this allocation. Currently, four bills regarding Medicaid relief for North Carolina counties are being considered by the House of Representatives and the Senate is considering three bills. House Bill 1424, which has been signed by every member of the House of Representatives, would permanently cap county Medicaid costs at FY 2005-06 levels, \$2,484,475 for Lee County, and provide additional, targeted relief each year to counties with the highest percentage of Medicaid-eligible citizens. It is not perceived that Lee County would meet the criteria for the additional relief. While this bill does not provide the conclusion of local contribution, it is the most realistic option to surface thus far. The County, via the North Carolina Association of County Commissioners (NCACC) and efforts of its Legislative Liaison Committee and General Assembly delegation, must continue to seek elimination of this expenditure from the local budget.

The Board has repeatedly stated its support and commitment to the employees of Lee County. This proposed budget continues to invest in the County's greatest asset. Per the County's financial policies, a Cost of Living Adjustment (COLA) determined by a US Department of Labor index will be given to all employees. By designating this unbiased economic indicator, County employees are assured that their salaries will keep pace with inflation and that such decision is made external to annual budget pressures. This budget does account for a COLA of 2.5 percent. Without this provision, employees effectively take home less money to cover the increasing costs of food, shelter and other factors of daily living.

The FY 2007-08 budget process faced significant increases in two employee benefits. First, the County's worker compensation insurance coverage is anticipated to increase 43 percent or \$224,028. While the County's experience modifier improved this fiscal year from 1.28 to 1.21 and its loss experience factor has dropped from 1.3 to 1.14, the rates charged per employee classification have been adjusted by the NCACC Worker's Compensation Pool to be in line with the NC Rate Bureau. The County is

investigating the potential of moving to a self-funded program for workers compensation insurance coverage. Over time, this could potentially save the County money but until reserves can be established, funding would need to remain equal to what is proposed by the current carrier. Second, the proposed budget incorporates the 12 percent increase in employee medical insurance rates approved by the Board of Commissioners on April 16, 2007.

For years, the Board has provided a health insurance benefit for retirees that serve at least 15 continuous years with Lee County immediately preceding retirement. It is estimated that this benefit will represent a \$224,800 expenditure in FY 2006-07; an increase of approximately \$52,000 over the previous year's expenditure. The 2007-08 fiscal year realizes a total possible exposure of \$324,480 for this retiree benefit; however, the recommended budget proposes only \$320,000. Presently, 54 former employees receive this benefit. It is anticipated that in the next five (5) years, an additional 15 employees will be eligible to retire with full retirement benefits and benefit from the program. There will also be 45 employees during the next 5 years that can retire with reduced retirement benefits and qualify for the insurance benefit. In light of increased medical insurance costs and the increasing number of retirement-eligible employees, the Board of Commissioners should monitor this program closely and be prepared to modify such, if it becomes cost prohibitive.

While this budget does not propose the full funding requested by the Sheriff's Department, it does include a significant investment in Public Safety. The Sheriff's Department is proposed to receive a 10.8 percent increase, \$353,575, for personnel and equipment. The recommendation leaves \$307,665 of the Sheriff's request unfunded. The Jail reflects a 15.4 percent increase. The substantial increase is due to the transfer of Jail health care from the Health Department after the County entered into a contract with Southern Health Partners, Inc. for the provision of medical care to the inmates in the Lee County Jail. If this transfer had not occurred, the Jail's recommended budget would have decreased from the FY 2006-07 amount.

The County's Human Services functions continue as the backbone of how the County affects the lives of its citizens. This proposed budget sustains the County's commitment to the quality of life of Lee County citizens by appropriating more than \$18 million for Health, Social Services, Senior Services and Youth Services departments. Fortunately, this budget realizes a reduction in the County's net cost of these services of \$237,531. A contributor to the reduction of net County cost is the Health department's proposal of additional revenue through the increase of Environmental Health Division fees. Fees for on-site septic system testing and food service establishment plan review were increased for the FY 2006-07 to provide revenues for salary increases to Division employees. This year the Board of Health and Health Director are proposing an increase in fees that will recover the full cost of the services. A comparison of the current and proposed Environmental Health fees is provided on the following page.

Environmental Health Fees

Service	Current Fee	Proposed Fee
Well Permit	\$100	\$300
Water Samples	\$30	\$95
On-Site Septic Application Fee	\$150	\$460
On-Site Septic Construction Authorizations		
Type II	\$125	\$370
Type III	\$150	\$440
Type IV	\$175	\$550
Type V	\$200	\$630
Type VI	\$225	\$710
Change of use (gpd) where system must be modified	\$150	\$475
System Re-evaluation	\$100	\$300
Plan Review For New Swimming Pool	\$350	\$310
2 nd pool plan review	\$200	\$205
Annual Swimming/Wading/Spa	\$150	\$155
Tattoo Artist	\$150	\$155
Food Service Plan Review		
New Establishment	\$125	\$455
Existing Establishment (Re-open)	\$40	\$155
Existing Establishment (Remodel)	\$50	\$175

Approval of these recovery rates would be in line with the decision made by the Board last year when City/County Inspection fees were increased to recover the cost of the services.

The 2007-08 fiscal year represents the second phase of a performance measurement budgeting system which is designed to maximize the efficient use of public funds while producing higher quality services. Performance measurement is part of the County's overall performance management program; a system designed to improve community

services by invoking accountability, responsive customer service, and insightful budget forecasting resulting from high departmental performance. In order to correlate performance measures with budgetary information, this year's budget format has been modified to reflect this phase of the program.

In this second year, all departments were asked to participate. The process began with modifying or creating department mission statements which are supported by goals, objectives, and measures. Included in this FY 2007-08 proposed budget is the department specific performance measures which will enable County employees to work towards these performance measurement targets.

The data collected will provide the ability to ascertain benchmarks by which to measure the County's effectiveness and efficiency. Departments are encouraged to work together to find alternatives that benefit more than one group in reciprocal expenditure areas. In order to promote employee/departmental achievement, a rewards program should be devised. An incentive for employees to generate savings for their department will not only result in department benefits but will also result in the more efficient use of County funds.

Performance measurement budgeting will inevitably lead to a comprehensive performance management system to unite the vision and performance of employees, management, and the Lee County Board of Commissioners. The Lee County Board of Commissioners has expressed its intent to promote an organization that is accountable, responsive, and insightful to community needs and County resources. It is through progressive management tools such as performance measurement budgeting, that a successful Lee County government will emerge. This 2007-08 proposed budget suggests that this approach will establish greater correlation between departmental performance and budget resources.

In accordance with the North Carolina Budget and Fiscal Control Act, the County of Lee's budget for the fiscal year beginning July 1, 2007, is presented herewith for your review and consideration. North Carolina General Statute (NCGS) 159-13(a) directs that the Budget Ordinance and tax rate adoption take place by July 1, 2007.

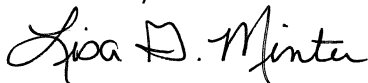
On the same day the budget is presented to the governing body, the Budget Officer is required to file a copy of it in the Office of the Clerk to the Board for public inspection and schedule a public hearing. In addition to the Clerk's office, a copy of this proposed FY 2007-08 budget will be available at the Suzanne Reeves Library on Hawkins Avenue in Sanford and online at the County's website, www.leecountync.gov. The public hearing for this recommended budget is scheduled for May 21, 2007, in Courtroom #4 at the Old Lee County Courthouse. NCGS 159-13 specifies that not earlier than 10 days after the budget is presented to the governing body and not later than July 1, the governing body shall adopt a budget ordinance and levy a tax rate. Work sessions for the Board to contemplate this proposed budget are scheduled to begin May 14, 2007. It is hoped that deliberations will be complete and that the budget ordinance may be adopted at the June 4, 2007, regular Board meeting.

The drafting of this recommended budget has taken many hours of work and dedication from many employees. Considerable thanks and praise is extended to Budget Analyst Sherry Poindexter for her diligence in assisting with the data contained in this document. Additional thanks are conveyed to the department managers who submitted realistic budgets and reasonable requests in a timely manner.

In the following pages you will find a more detailed account of this FY 2007-08 proposed budget. I encourage you to review such and contact me if a specific explanation is required. A comprehensive presentation of the document and the proposals contained within is scheduled for the May 7, 2007, 9:00 a.m. regular meeting of the Board.

I wish to also acknowledge the Board of Commissioners support and leadership in these most challenging times. I look forward to working with you through the remainder of this year's budget process. The County at-large, and the organization itself, are poised to experience a bright future. The County has faced many challenges and will face many more along its road to becoming a standard bearer for professional local government.

Sincerely,

A handwritten signature in black ink, reading "Lisa G. Minter". The signature is fluid and cursive, with the first name "Lisa" being the most prominent.

Lisa G. Minter, CPA
Interim County Manager/Budget Officer
Finance Director

This page left blank intentionally.